

- b. Reduce similar discrepancies in the future.
- c. Ensure that the proper adjustment was made.
- d. Evaluate indicators of trends or system problems for corrective action.

3. Timely completion of the research of potential adjustments is essential. Delay only increases the complexities of adequate research and reduces the probability of conclusive research. DoD Components shall specify the maximum timeframes which will be permitted for completion of research before the adjustment is processed to the accountable record.

4. When circumstances prevent implementation of the criteria set forth in figure 7-1 and reduced adjustment criteria are required, the DoD Components taking exception will submit their alternative research criteria to the DoD MI LSTRAP System Administrator with justification for the proposed change.

5. For **intra-Service/Agency** (or inter-Service/Agency based on agreement of the DoD Components involved) reconciliation of inventories, the **ICP** may request transaction history and/or custodial balances from the storage activity for analyzing inventory discrepancies. The history/balance will be requested using a **DI** Code **DZJ** Transaction History/Custodial Balance Request, prepared in the appendix C60 format, citing the appropriate Appendix B3, Type of Physical Inventory/Transaction History Code, in record position 7. When transaction history is requested, the transaction history timeframe (start date and number of prior days history required) will be entered in record positions 25-31. The storage activity will provide the transaction history data using the **DI** Code **DZK** Transaction History Transmittal prepared in the appendix C61 format. The transmission media will be determined from the Appendix B17, Type of Media Code, entered in record position 60 of the **DI** Code **DZJ** request. The storage activity will provide custodial balances using the **DI** Code **DKA** Physical Inventory Count transaction; the Type of Physical Inventory/Transaction History Code Y or Z in record position 7, perpetuated from the **DI** Code **DZJ** request, will identify the quantity entered as a custodial balance only.

6. Once the causes of potential/actual inventory adjustments are determined by causative research, they will be classified, analyzed, and evaluated so action may be taken to correct the situation which caused the error. Error classification codes may be entered in **intra-Service/Agency** transactions and in record positions 73-75 of Physical Inventory Count Transactions (**DI** Code **DKA**) and record positions 63-65 of Inventory Adjustment Transactions (**DI** Codes **D8/D9**). For analysis and evaluation, error conditions **will** be **identified** to the operation in which they occurred (e. g., receiving, issue, etc.) and classified by type within each operation. For

reporting purposes, each operation and each error type have been identified by an alphabetic or numeric code as shown in appendix B18. The error classification system is structured to provide the Services/Agencies the latitude to amplify the DoD defined error classifications; however, the capability to summarize internally defined error classifications to the appropriate DoD classification must be maintained.

7. Unresolved physical inventory loss adjustments for controlled inventory items will be referred to security officials of the storage activity from which the loss occurred to determine whether there is probable cause to suspect theft.

8. **MILSTRIP** (reference (h)) prescribes DoD standard document formats, data codes, and criteria for the preparation and processing of materiel release denials at storage activities and inventory control points. To facilitate research for ascertaining the validity of materiel denials, a denial suspense procedure will be implemented by the **ICP**. The suspense procedure shall, as a minimum, designate an organization responsible for:

a. ~~Allowing~~ a time delay, between the discovery of the **potential discrepancy** which resulted in denial and processing of an accountable record adjustment, to perform research.

b. Prescribing a time limit, not to exceed 30 calendar days, on the period a potential discrepancy may remain suspended.

* E. REVERSAL OF INVENTORY ADJUSTMENTS. Reversal of **DI** Code **D8A/D9A** inventory adjustments is a required capability which must be implemented with proper controls and supported by proper documentation. (See appendix C, page C-1, for processing adjustment reversals.) Procedures for reversing adjustments will contain, as a minimum, the following control features:

1. Reversals required to correct inventory records when posting previously unposted or incorrectly posted supply transactions (e.g., receipts, issues, etc.), regardless of age are limited to those transactions that can be properly documented to reference the specific transaction document number(s) that will be processed to offset the reversal.

2. Reversals required to correct physical inventory adjustments which were made based on incorrect/incomplete information are limited to 2 years from the date of the original adjustment. **All** reversals must be properly documented.

3. Reversals will not be processed solely on the basis of a previous offsetting **physical** inventory adjustment.

4. Reversals against transactions processed within the adjustment reporting period **will** be separated and identified to report:

- a. Gross adjustment during the current period,
 - b. Reversal of prior quarters' adjustment transactions,
 - c. Reversal of current quarters' adjustment transactions,
- and
- d. Total value of net adjustments during the current period (i. e., value of net gains added to value of net losses).

F. LOCATION AUDIT PROGRAM

Each DoD Component will implement a location audit program which will consist of both a location survey and a location reconciliation. The DoD acceptable accuracy goals are (a) Location Survey Accuracy -- 97 percent, and (b) Location Reconciliation Accuracy--97 percent. DoD Components may impose more stringent standards internally.

1. Location Audit Program Errors

- a. There are three types of errors uncovered in the location audit program.

(1) Type 1. Accountable/custodial records which show a positive stock balance with no supporting locator record, locator record established with no physical assets in storage, or physical assets in storage with no supporting locator record.

(2) Type 2. Locator record with no supporting accountable record (location reconciliation error **only**).

(3) Type 3. Mismatch of any of the following data elements (when optional elements are included in the location survey or location reconciliation program, they will be used in calculating the accuracy rate):

(a) Unit of issue.

(b) Supply condition code.

(c) NSN has been deleted or is under the cognizance of another inventory manager.

(d) Ownership **code.¹**

(e) Controlled inventory item code (see appendix B19). (For location survey, verification of the code will consist of ensuring that assets are stored in areas providing the degree of security commensurate with the assigned code.)

¹For location reconciliation only.

- (f) Shelf-life code.
- (g) Quantity (optional).
- (h) Type of pack code (for subsistence only). (See appendix B19.)
- (i) Inventory category code (optional).¹

b. Errors will be subject to validation research before they are counted as errors. Location audit program results will be reported in the Inventory Control Effectiveness Report as prescribed in section J. Only one error per surveyed location and one error per location reconciliation line item with discrepancies is to be reported; however, DoD Components will collect and analyze all Type 3 errors by element.

2. Location Survey

a. Location survey requires a physical verification, other than actual count, between actual assets and recorded location data to ensure that all assets are properly recorded as to location, identity, condition, shelf-life code, and unit of issue. As an option, Services/Agencies may include a quantity comparison for physical inventory purposes. In some instances, location survey and physical inventory will be conducted concurrently for ammunition.

b. A complete location survey of all items at each storage activity will be conducted not less than once each fiscal year and more frequently if the need is indicated.

c. The proper sequence of operating a location survey requires the comparing of assets found in storage locations with locator records. This sequence of operation is important to detect assets in unrecorded locations.

d. As an objective, it is desirable to identify items to inventory lots or segments. Lots/segments will be of a manageable size (number of items) to permit location survey in a minimum time period, to ensure maximum uninterrupted service to customers, and to obtain the greatest degree of accuracy from the location survey.

e. Items within a lot/segment which have been subject to a complete item inventory will be considered to have satisfied the annual survey requirement when the entire lot/segment is located in a clearly designated, coterminous warehouse space. These inventoried

¹For location reconciliation only.